

August 20, 2009

Pakistan Market**HBL: EPS of Rs7.32 expected in 1H2009****MORNING BRIEFING**

KSE100 Index: Closing 7952.70 ↓ (-42.40)

Habib Bank Limited (HBL) is scheduled to announce its first half (Jan-June) 2009 result on Aug 21, 2009. We expect HBL to post earnings of Rs6.7bn (EPS of Rs7.32) in 1H2009 versus Rs6.4bn (EPS Rs6.98) in 1H2008 – an increase of 5%. Despite significant increase in net interest income, higher provisions for non-performing loans (NPLs) and jump in administrative expenses are likely to keep earnings in check.

NII to jump 23% in 1H2009 amid higher KIBOR

HBL's Net Interest Income (NII) is expected to arrive at Rs20.4bn in 1H2009 versus Rs16.5bn in 1H2008, up 23%YoY. A combination of higher KIBOR and strong advances growth are the major reasons for the surge in NII. Despite 5% minimum interest rate on savings imposed by SBP, increase in lending rates has outpaced the rise in cost of deposits thereby resulting in higher net interest margins (NIMs). Nonetheless, NII is expected to depict a declining trend on a QoQ basis, as 73bps decline in KIBOR is likely to result in 5% fall in NII to Rs9.9bn in 2Q2009. Moreover, NIM is expected to contract to 6.7% versus 6.9% in 1Q2009.

Higher provisions to keep profits under check

Despite significant increase in net interest income, surge in provisions for NPLs and higher admin expenses are expected to keep HBL's earnings largely in check. Amid rising NPLs, we expect provisions to arrive at Rs4.3bn versus Rs1.1bn, up 284%YoY. Moreover, rising inflationary pressures are likely to push admin. expenses higher at Rs11.7bn, up 21%YoY. That said, higher fee income up 28% to Rs2.3bn is expected to provide some support to the bottom line.

Outlook: 'Hold' maintained

HBL currently trades at 2009E PE and PBV of 8.9x and 1.4x, respectively, which is at a premium of 34% on PE and 26% on PBV to its major local peers such as UBL, MCB and NBP. This premium, however, seems unjustified as HBL's 3-year (2009-11) average ROE of 15.5% is lower than its peer's

average of 16.5%. We, therefore maintain a 'Hold' stance on HBL at current levels.

Table: 1H2009 Financial highlights

Rs mn	1H2009E	1H2008A	% change
Markup interest earned	35,792	27,566	30%
Marup interest paid	15,425	11,044	40%
Net Interest Income	20,367	16,522	23%
Provisions & write off	(2,811)	(1,120)	151%
Net mark up income after prov	17,556	15,403	14%
Fee income	2,348	1,832	28%
Other non interest income	1,951	2,693	-28%
Net mark up + Non mark up income	21,855	19,927	10%
Admin expenses & other charges	(11,657)	(9,621)	21%
Profit before tax	10,198	10,306	-1%
Taxation	(3,532)	(3,950)	-11%
Profit after tax	6,666	6,357	5%
EPS	7.32	6.98	

Source: JS Research, Company accounts

farhan.rizvi@js.com

92 (21) 111-574-111 (ext. 3096)

Habib Bank Limited

Market Price: Rs104.37	Kats Code: HBL
Market Cap: Rs95.1bn (US\$1.1bn)	Bloomberg Code: HBL PA
1-yrs Avg. Daily Volume: 0.5mn shares, Rs51.7mn (US\$0.6mn)	Reuters Code: HBL.KA
1-year High/Low: Rs164.99/51.17	

Also in focus**C/A deficit narrows to US\$606mn**

As per the figures released by SBP, Current Account deficit for July 2009 came at US\$606mn (down 49%YoY), compared to deficit of US\$1.18bn reported during the same period last year. The decrease in deficit is primarily led by large decline in trade, services and income deficits besides rising inflows of services exports. This should help ease concerns on Pakistan's overall external account vulnerability and overall liquidity conditions in the country.

JS Global Capital Limited

6th Floor, Faysal House, Main Shahrah-e-Faisal, Karachi

Research:

Tel: +92 (21) 32799005
Fax: +92 (21) 32800163
js.research@js.com

Equity Sales:

Tel: +92 (21) 32799513
Fax: +92 (21) 32800166
junaid.iqbal@js.com

Fixed Income Sales:

Tel: +92 (21) 32799541-44
Fax: +92 (21) 32800163
tariq.usman@js.com

Corporate Finance:

Tel: +92 (21) 32799005
Fax: +92 (21) 22800163
azhar.iqbal@js.com

JS RESEARCH IS AVAILABLE ON BLOOMBERG, CAPITALIQ & THOMSON REUTERS